

**Choctaw County Rural Water, Sewer, Gas and Solid
Waste Management District No. 3
Sawyer, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended July 31, 2023

Audited by

**BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP**

BROKEN ARROW, OK

**Choctaw County Rural Water, Sewer, Gas and Solid Waste
Management District No. 3
Sawyer, Oklahoma
July 31, 2023**

BOARD OF DIRECTORS

Chairman

Bob Goodwin

Vice-Chairman

Heather Poage

Secretary

William Eaton

Treasurer

Russell Noble

Member

Vacant

OPERATIONS MANAGER

Charles Motes

OFFICE MANAGER

Celeste Hertiage-Howell

**Choctaw County Rural Water, Sewer, Gas and Solid Waste
Management District No. 3
Sawyer, Oklahoma
July 31, 2023**

TABLE OF CONTENTS

	<u>Page</u>
Table of Contents	1
Independent Auditor's Report	2
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	5
Disposition of Prior Year Significant Deficiencies	7
Schedule of Audit Results	8
<u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Position	11
Statement of Revenues, Expenses and Changes in Net Position	12
Statement of Cash Flows	13
Notes to Financial Statements	14



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Choctaw County Rural Water, Sewer, Gas
and Solid Waste Management District No. 3
Sawyer, Oklahoma

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3, Sawyer, Oklahoma (the District), as of and for the year ended July 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of July 31, 2023, and the respective changes in financial position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

The prior year “memorandum only” comparative information is presented for the purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2023, on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District’s internal control over financial reporting and compliance.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

October 13, 2023



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

Eric M. Bledsoe, CPA
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Choctaw County Rural Water, Sewer, Gas
and Solid Waste Management District No. 3
Sawyer, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3, Sawyer, Oklahoma (the District), as of and for the year ended July 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 13, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit results as item 2023-1, we identified a significant deficiency in the internal controls that was considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. This item, identified as item 2023-1, is shown in the accompanying schedule of audit results. We also noted some immaterial instances of noncompliance that we have included in a separate letter to management, dated October 13, 2023.

District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of audit results. The District's responses were not subjected to the auditing procedures applied in the audit on the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bledsoe, Hewett & Gullekson

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP

October 13, 2023

**Choctaw County Rural Water, Sewer, Gas and Solid Waste
Management District No. 3
Sawyer, Oklahoma
Disposition of Prior Year's Significant Deficiencies
July 31, 2023**

2022-1 – Lack of Segregation of Duties

The exception related to lack of segregation of duties was corrected during the 2022-23 fiscal year. The District has contracted with an outside bookkeeper, allowing for two individuals being involved in entering and reviewing transactions.

2022-2 – Expenditure Documentation

The exception related to expenditure documentation was corrected during the 2022-23 fiscal year. There were some expenditures prior to the new office staff being hired that we were unable to locate, however, we were able to examine most of the expenditures we selected to test.

2022-3 – Adjustments to Customer Accounts / Deposits

The exception related to adjustments to customer accounts and deposits was corrected during the 2022-23 fiscal year. However, there were still unapproved adjustments and missing cash deposits prior to the new office staff being hired in February, 2023. (See Finding 2023-1)

In addition, law enforcement has been contacted regarding the previous audit concerns and possibility of an embezzlement of District funds.

2022-4 – Payroll / IRS Obligations

The exception related to payroll withholdings and tax returns not being filed was corrected during the 2022-23 fiscal year. The District has contracted with an outside tax consultant to get all filings and past due withholdings paid to the IRS. The tax consultant expects to have all appropriate tax returns filed within the next couple of months and any outstanding IRS obligations should not exceed \$10,000.

**Choctaw County Rural Water, Sewer, Gas and Solid Waste
Management District No. 3
Sawyer, Oklahoma
Schedule of Audit Results
July 31, 2023**

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion was issued on the financial statements.
2. The audit disclosed one reportable condition in the internal controls, item 2023-1, which is considered to be a material weakness.
3. The audit disclosed one instance of noncompliance which is material to the financial statements, item 2023-1.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

2023-1 – Adjustments to Customer Accounts / Deposits

Condition: During the audit, we observed several adjusting entries made to customer accounts. These adjustments were credits to customer accounts and were made in lieu of a utility payment from the customer. While these adjustments might have been necessary due to a clerical error or an authorized leak adjustment, we did not observe any supporting documentation explaining the adjustments. In addition, the adjustments were not approved in the board minutes. The following adjustments were recorded in the accounting software during the 2022-23 fiscal year:

<u>Adjustment Code</u>	<u>Amount</u>
Bill Adjustments	\$ 10,234.18
Leak Adjustments	905.22
Pool Adjustments	431.30
Other	2,426.88
Total	<u>\$ 13,997.58</u>

In addition, the District did not maintain a ledger regarding customer meter deposits and did not maintain a separate bank account for these deposits.

While reviewing the accounting software's login activity, we noted several deleted transactions in the accounting software. There were approximately 45 deleted transactions involving customer accounts prior to the new office staff being hired. Deleting previously input accounting transactions indicates a misappropriation of assets by embezzlement is highly possible. In addition, while reviewing the deposits for several of the days where deleted transactions occurred, we found that no cash deposits were made at the bank despite it being highly likely that several customers paid by cash.

There was only a total of 17 deposits made from August 1, 2022 through February 17, 2023 and there was no cash deposited with any of these deposits. After February 17, 2023 cash was included with all deposits and deposits were made frequently (this was the date that the new office staff was hired).

Criteria: It is the responsibility of the District to properly report and account for all financial information, including adjustments to customer accounts and customer meter deposits. In addition, a good system of internal control and sound accounting practices requires that bank statements be reconciled to the accounting records and in a timely manner, and as required by Oklahoma Statutes.

Cause / Effect: Without proper approval and documentation for customer adjustments, we are unable to determine whether the adjustments were made in accordance with Board policy or made as a means to misappropriate District funds.

Further, the District did not have procedures in place to adequately review and reconcile revenues/deposits. Failure to reconcile the bank statements to the accounting records increases the risk of error, fraud, and inaccurate financial information, which will not be detected in a timely manner.

The deleting of accounting software transactions without any reasonable explanation and documentation can cause the revenues reported to be misleading, in addition to there being a high risk that fraud could occur without being detected.

Recommendation: We recommend the District Board approve all adjustments made to customer accounts at each monthly Board meeting. We also recommend the District record and account for the balance of customer deposits.

We also recommend that procedures be implemented that would require the bank statements be reconciled monthly and that an individual that is independent of the process review the reconciliations for accuracy and completeness.

We also recommend that an individual independent from the receipt process review user login activity and investigate any unusual activity or deleted transactions.

It should be noted that the Board has implemented new procedures following our 2021-22 audit findings and these items were corrected during the fiscal year.

Response: The District is attempting to obtain proper training on accounting software and current office staff has established an organized filing system to ensure accounting records are maintained and accessible to auditors. In addition, the current office staff will reconcile the bank statements each month and the Board will review the bank reconciliation at each monthly Board meeting. The Board has already begun approving

all adjustments made to customer accounts at each monthly Board meeting and will review user login activity and investigate any deleted transactions. In addition, customer deposits will be properly recorded in the accounting software so that an accurate balance of customer deposits can be presented on the financial statements. A separate bank account has been opened to deposit customer deposits.

The Board has also been in contact with law enforcement regarding these audit concerns and will continue to cooperate with any and all agencies regarding this matter.

**Choctaw County Rural Water, Sewer, Gas and Solid Waste
Management District No. 3
Sawyer, Oklahoma
Statement of Net Position
July 31, 2023**

	2023	-Memorandum- -Only- 2022
<u>ASSETS</u>		
Current Assets:		
Cash in bank - unrestricted	\$ 69,826	\$ 90,393
Cash in bank - restricted (debt service)	0	7,390
Accounts receivable	28,996	12,925
Prepaid insurance	2,660	2,725
Total current assets	101,482	113,433
Capital Assets:		
Water system & lines	746,552	742,902
Transportation equipment	14,000	14,000
Equipment and tools	25,899	25,899
Office furniture & equipment	8,746	8,746
Buildings	41,625	41,625
Total capital assets	836,822	833,172
Less: accumulated depreciation	(425,067)	(402,381)
Capital assets, net	411,755	430,791
TOTAL ASSETS	\$ 513,237	\$ 544,224
 <u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 6,814	\$ 2,959
Interest payable	217	228
Current maturities of long-term debt	3,887	3,717
Total current liabilities	10,918	6,904
Non-Current Liabilities:		
Long-Term Debt, less current maturities-	66,440	70,325
Total Liabilities	77,358	77,229
 <u>NET POSITION</u>		
Net investment in capital assets	334,397	353,562
Restricted for debt service	0	7,390
Unrestricted assets	101,482	106,043
Total Net Position	435,879	466,995
TOTAL LIABILITIES AND NET POSITION	\$ 513,237	\$ 544,224

The accompanying notes to the financial statements are an integral part of this statement

**Choctaw County Rural Water, Sewer, Gas and Solid Waste
Management District No. 3
Sawyer, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended July 31, 2023**

	2023	-Memorandum- -Only- 2022
Revenue from Operations:		
Water sales & benefit units	\$ 119,415	\$ 111,439
Memberships	5,400	0
Other income and fees	5,567	2,468
Total revenue from operations	130,382	113,907
Expenses from Operations:		
Water purchases	46,175	24,645
Salary and taxes	43,634	35,774
Contract labor	2,285	12,516
Insurance	3,781	4,085
System maintenance and repair	15,835	14,256
Office and postage	3,219	4,790
Professional fees	15,000	0
Utilities and telephone	5,359	3,954
Vehicle expenses	0	128
Water testing	2,221	2,811
Miscellaneous	1,888	5,493
Depreciation	22,686	22,322
Dues and fees	800	120
Travel	2,352	2,257
DEQ fines	3,140	0
Total expenses from operations	168,375	133,151
Operating Income (Loss)	(37,993)	(19,244)
Non-operating income:		
Interest earnings	123	103
Insurance settlement	10,000	0
Total other income	10,123	103
Non-operating expenses:		
Interest paid on debt	(3,246)	(3,409)
Change in Net Position	(31,116)	(22,550)
Total Net Position, beginning of period	466,995	489,545
Total Net Position, end of period	\$ 435,879	\$ 466,995

The accompanying notes to the financial statements are an integral part of this statement

**Choctaw County Rural Water, Sewer, Gas and Solid Waste
Management District No. 3
Sawyer, Oklahoma
Statement of Cash Flows
For Year Ended July 31, 2023**

	<u>2023</u>	<u>-Memorandum- -Only- 2022</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 114,311	\$ 113,395
Payments to employees	(38,163)	(34,948)
Payments to vendors	(103,617)	(77,791)
Net cash provided by operating activities	<u>(27,469)</u>	<u>656</u>
Cash Flows from Capital and Related Financial Activities:		
Principal payments on long-term debt	(3,715)	(3,552)
Interest payments on long-term debt	(3,246)	(3,409)
Settlement (Insurance)	10,000	0
Purchase of capital assets	(3,650)	0
Net cash provided by (used in) capital and related financial activities	<u>(611)</u>	<u>(6,961)</u>
Cash Flows from Investing Activities:		
Interest revenue	123	103
Net cash provided by (used in) investing activities	<u>123</u>	<u>103</u>
Net increase (decrease) in cash and equivalents	(27,957)	(6,202)
Cash and cash equivalents, beginning of period	<u>97,783</u>	<u>103,985</u>
Cash and cash equivalents, end of period	<u>\$ 69,826</u>	<u>\$ 97,783</u>
Reconciliation of operating net income (loss) to net cash provided by operating activities:		
Net income (loss) from operations	\$ (37,993)	\$ (19,244)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	22,686	22,322
(Increase) decrease in accounts receivable	(16,071)	(512)
(Increase) decrease in prepaid expenses	65	(2,725)
Increase (decrease) in accruals	(11)	(11)
Increase (decrease) in accounts payable	3,855	826
Net Cash Provided by Operating Activities	<u>\$ (27,469)</u>	<u>\$ 656</u>

The accompanying notes to the financial statements are an integral part of this statement

Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3
Sawyer, Oklahoma
Notes to the Financial Statements
July 31, 2023

Note A – Significant Accounting Policies

Nature of Organization

The Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3 (the District) was created under the provisions of Title 82 of Oklahoma Statutes, Section 1324.1 – 1324.35 and the Laws of the State of Oklahoma. The purpose of this District is to provide water services to users. Membership in the District consists of water users who have paid the required membership and connection fees.

Fund Accounting

The District is accounted for within the framework of enterprise fund accounting. Propriety Fund Type Enterprise Funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District’s Board of Directors is to recover the cost of providing goods and services through user charges.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District’s cash accounts at July 31, 2023 are detailed as follows:

Operating & Maint. account (First United)	\$ 23,484
Customer deposits (First United)	1,000
Payroll taxes (First United)	0
Savings account (included in "cash")	45,085
Plus: deposits in transit	<u>257</u>
Total	<u><u>\$ 69,826</u></u>

Accounts Receivable

Billings for accounts receivable (water) at July 31, 2023 were \$28,996. An allowance for doubtful accounts was not computed on this balance. The direct write-off method is used by the District for bad accounts, which is not materially different from computing an allowance.

Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3
Sawyer, Oklahoma
Notes to the Financial Statements
July 31, 2023

Note A – Significant Accounting Policies – cont’d

Inventory

The District does not include an inventory amount in its financial statements. All items purchased for inventory are expensed immediately.

Capital Assets

Capital (“fixed”) assets are valued at cost; depreciation is computed by use of the straight-line method. The activity for capital assets (any item over \$1,000) are as follows:

	8/1/2022			7/31/2023
	Amount	Additions	Deletions	Amount
Office furn. & fixt.	\$ 8,746	-	-	8,746
Equipment & tools	25,899	-	-	25,899
Transportation equip.	14,000	-	-	14,000
Water & sewer sys.	742,902	3,650	-	746,552
Buildings	41,625	-	-	41,625
Total Fixed Assets	833,172	3,650	-	836,822
Less: Accumulated Depreciation	<u>(402,381)</u>	<u>(22,686)</u>	<u>-</u>	<u>(425,067)</u>
Total	<u>\$ 430,791</u>	<u>(19,036)</u>	<u>-</u>	<u>411,755</u>

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constructional provisions or enabling legislation.

Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3
Sawyer, Oklahoma
Notes to the Financial Statements
July 31, 2023

Note A – Significant Accounting Policies – cont’d

3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District’s policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Federal Income Tax

The District is exempt from federal and state income taxes.

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments, such as certificates of deposit and savings accounts, as cash equivalents.

Memorandum Totals

Prior year “memorandum only” financial statement information is shown for comparative purposes only.

Note B – Cash and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers’ acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk - At July 31, 2023 the District held deposits of approximately \$69,826 at financial institutions. The District’s cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District’s name.

Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3
Sawyer, Oklahoma
Notes to the Financial Statements
July 31, 2023

Note B – Cash and Investments – cont’d

Investment Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk – The District has no policy that limits its investment choices other than the limitations of state law, as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitations, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-d).

Note C – Accumulated Unpaid Vacation and Sick Pay

At July 31, 2023 no determination of the aggregate dollar value of vacation or sick pay had been made.

Note D – Long-Term Debt

Long-term debt at July 31, 2023 is summarized as follows:

Rural Development Note Payable, issued for \$126,500, dated September 4, 1997, interest rate of 4.5%, payable in monthly principal and interest installments of \$581, final payment due January 15, 2037

\$ 70,327

Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3
Sawyer, Oklahoma
Notes to the Financial Statements
July 31, 2023

Note D – Long-Term Debt – cont’d

The estimated maturities for long-term debt mortgages for the next five years, and in five year totals thereafter, are detailed as follows:

<u>Year Ending October 31,</u>	<u>Rural Dev.</u>
2024	\$ 3,887
2025	4,065
2026	4,252
2027	4,448
2028	4,652
2029-33	26,667
2034-38	<u>22,356</u>
Total	<u>\$ 70,327</u>

Reserve Account

According to the loan agreements with Rural Development, the District is required to make monthly deposits of \$581 to a designated account known as a reserve account. A total balance of \$6,972 is to be accumulated in the reserve account, which represents a balance equal to one annual payment on each loan. The District has previously maintained a savings account at Edward Jones as a reserve account. At July 31, 2023 the Reserve account had a balance of \$0.

Note E – Other Contingencies

Risk Management

The District is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carrier commercial blanket of coverage and worker’s compensation for risk of loss.

There has been no significant reduction in the District’s insurance coverage from the previous year. In addition, there have been no settlements in excess of the District’s coverage in any of the prior three fiscal years.

Litigation

There are no known threatened or unasserted claims against the District.

Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3
Sawyer, Oklahoma
Notes to the Financial Statements
July 31, 2023

Note E – Other Contingencies

Subsequent Events

During the current 2023-24 fiscal year, the District discovered that a customer account, the County of Engineers (COE) in Hugo, had been incorrectly billed for several years. It was determined that COE owed approximately \$18,000 in unbilled water fees. The COE paid their outstanding balance in full in September 2023.

The District also estimates that approximately \$10,000 in payroll withholdings and penalties will be paid to the IRS during October 2023.



BLEDSON, HEWETT & GULLEKSON
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

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October 13, 2023

Board of Directors
Choctaw County Rural Water, Sewer, Gas
and Solid Waste Management District No. 3
Sawyer, Oklahoma

Dear Board of Directors:

The following section contains the observations and recommendations relayed to management that are immaterial control deficiencies, which we feel need to be communicated to you so that appropriate action may be taken to correct these deficiencies. These items are not included in your audit report, as they are not considered material in nature. They are simply observations of some immaterial findings that could evolve into material findings if not addressed or corrected.

Board Minutes

We observed that the 2022 calendar of meeting dates was not submitted to the County Clerk until January 4, 2022, and the 2023 calendar of meeting dates was not submitted to the County Clerk until January 3, 2023. Oklahoma Statutes require that each governing board provide written notice to the County Clerk of all upcoming meetings for each calendar year by December 15th of the previous year.

Rural Development Loan Fund

According to the loan agreement with Rural Development, the District is required to make monthly deposits of \$581 to a designated account known as a reserve account. A total balance of \$6,972 is to be accumulated in the reserve account, which represents a balance equal to one annual payment on each loan. The District closed its existing reserve bank account and did not have an account specifically designated for this loan at July 31, 2023. We recommend the District open an account and maintain a balance of at least \$6,972 in order to comply with loan requirements.

Quarterly 941 IRS Payments

We observed during the audit that federal income withholding taxes, social security and Medicare withholding taxes were not being remitted to the Internal Revenue Service in a timely manner. This could result in the District paying a penalty and interest for these late payments. We recommend the District implement procedures where an individual review the monthly payroll registers and reconciles and/or submit the applicable withholdings to the Internal Revenue Service through their Electronic Funds Transfer Payment System, so that payments can be made in a timely manner which is normally within three days from when payroll is dated (i.e., when the liability is incurred.)

We also learned that that the District has not properly filed the Form 941 Quarterly Federal Tax Returns since the second Quarter of 2020. We recommend that the District file their Form 941's in a timely manner, as is required by the Internal Revenue Service, to avoid any penalties or fees.

The District has contracted with an outside tax consultant to get all filings and past due withholdings paid to the IRS. The tax consultant expects to have all appropriate tax returns filed within the next couple of months and any outstanding IRS obligations should not exceed \$10,000.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,

A handwritten signature in black ink, appearing to read 'C.P. Gullekson', written in a cursive style.

Christopher P. Gullekson

For

Bledsoe, Hewett & Gullekson
Certified Public Accountants, PLLLP